

BSE SENSEX 71,683 S&P CNX 21,622

Galaxy Surfactants

CMP: INR2,727 TP: INR3,760 (+38%)

Buy



Stock Info

Bloomberg	GALSURF IN
Equity Shares (m)	35
M.Cap.(INRb)/(USDb)	96.7 / 1.2
52-Week Range (INR)	2989 / 2218
1, 6, 12 Rel. Per (%)	-2/-7/-4
12M Avg Val (INR M)	67
Free float (%)	29.1

Financials Snapshot (INR b)

Y/E March	FY24E	FY25E	FY25E
Sales	40.8	46.5	53.2
EBITDA	5.4	6.1	6.9
PAT	3.4	4.0	4.6
EPS (INR)	95	111	130
EPS Gr. (%)	-11.3	17.0	16.6
BV/Sh.(INR)	607	695	799

Ratios

Net D:E	-0.1	-0.2	-0.2
RoE (%)	16.7	17.1	17.4
RoCE (%)	15.9	16.9	17.4
Payout (%)	20.5	20.5	20.5

Valuations

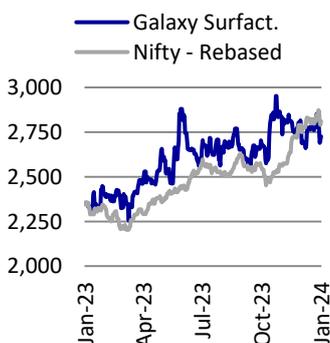
P/E (x)	28.6	24.5	21.0
P/BV (x)	4.5	3.9	3.4
EV/EBITDA (x)	17.5	15.2	13.1
Div. Yield (%)	0.7	0.8	1.0
FCF Yield (%)	4.1	2.5	3.0

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	70.9	70.9	70.9
DII	12.4	12.6	12.7
FII	3.6	3.1	2.8
Others	13.0	13.4	13.6

FII Includes depository receipts

Stock Performance (1-year)



Robust volume growth subject to macroeconomic stability

- GALSURF is one of the leading players in the world of Surfactants and Specialty Care ingredients, exclusively focused on catering to the Home and Personal Care industry. Nine out of the 10 Indian consumers incorporate GALSURF's Surfactants or Specialty Care products at least once in their daily routine.
- We hosted the company for investor meetings. Below are the key highlights from the same.

Management confident of robust volume growth

- India has been one of the brighter spots for the company in terms of volume growth coming out of COVID. Volumes have grown in the range of ~9-11% over FY21-23, and this momentum has continued into 1HFY24, with GALSURF posting a strong double-digit growth in India.
- Volumes have declined in the AMET region in the past couple of years due to various ongoing issues, including currency depreciation and other geopolitical reasons. However, there was revival seen with growth in the mid-single digits in 1HFY24.
- Growth in the RoW region was strong in FY22, but waned in FY23, with volumes declining 4.6%. The US faced challenges such as supply chain disruptions and fluctuations in interest rate during this period. Inventory destocking is another phenomenon that was witnessed by GALSURF coupled with demand cutbacks toward the end of CY22.
- The management has already guided for a volume growth of 6-8% with bias toward the upper band of the guided range. Management highlighted that 8-10% volume growth could also be achieved going forward provided that the global economic growth is supportive and there are no further macroeconomic shocks.
- The B2C segment is growing at a much faster rate, particularly in smaller markets that are expanding at a faster rate than traditional ones. Smaller players account for 30-35% of the company's overall volumes, and Indian volumes within this segment are growing at 10-15%. This trend suggests that the B2C segment has the potential to significantly contribute to robust volume growth.

Other highlights

- Fatty Alcohol is one of the main RMs of the company and contracts are structured around quarterly adjustments, reflecting changes in raw material prices. In these contracts, 55-60% is pass-through, a mechanism typically implemented with a one-quarter lag.
- The company does not consider customization of products under new products developed (but these customized products definitely add value to the customers). New products contribute 4-5% to the overall revenues on a five-year rolling basis and GALSURF has introduced 3-4 products in the past three years. A dedicated R&D center is in place for the purpose of product developments.

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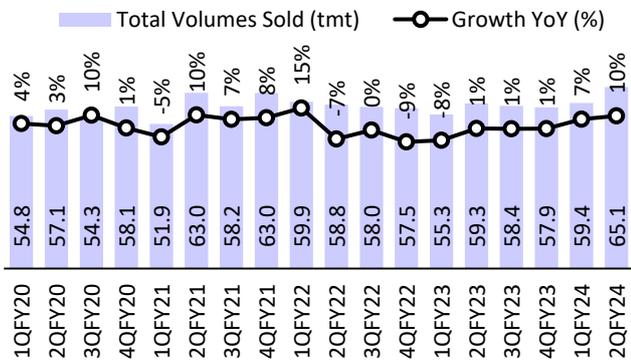
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- The company engages in co-development projects, often with a lead time of 2-2.5 years. In this business model, GALSURF conducts R&D, after which it develops the product to be supplied. The qualification process is quite stringent, with product approval for quality taking 6-12 months in some cases.
- Freight and container rates have shot up significantly due to the ongoing Red Sea issue and this rise in rates usually takes a couple of quarters to settle down. Management expects the same this time as well. And this is going to be the case for everyone with delays in delivery and increased logistical costs in India. Customers do consider and take into account all such issues as it is a global event.
- Asset turns are generally in the range of 2.5-3x for GALSURF. Capex guidance remains at INR1-1.5b with INR350-400m being maintenance capex.

Valuation and view – maintain Buy

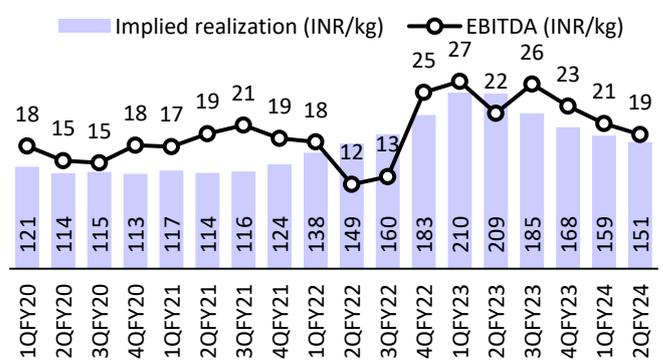
- The continued focus on R&D (with an annual expenditure of INR400-500m) and increased wallet share from its existing customers should drive volume growth. Margin is also expected to expand gradually.
- We estimate a volume CAGR of 8% over FY23-26E. This growth is led by robust volumes in the domestic market and a recovery in the Specialty Care Products volumes in developed markets, where indications of growth have already begun to emerge.
- The stock is currently trading at ~25x FY25E EPS of INR111.5 and ~15x FY25E EV/EBITDA. We value the company at 30x Dec'25E EPS to arrive at a TP of INR3,760. **We reiterate our BUY rating on the stock.**

Exhibit 1: Volume has grown by 9% YoY in 1HFY24



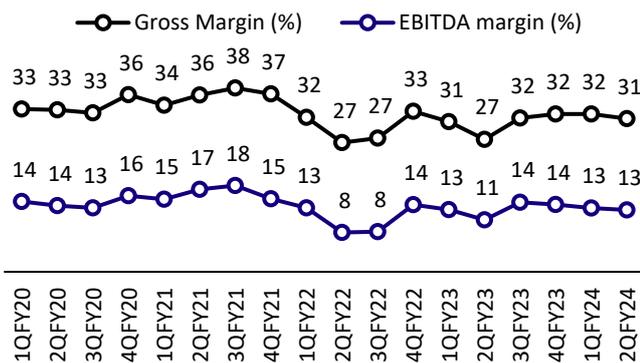
Source: Company, MOFSL

Exhibit 2: EBITDA/kg and realization trend of GALSURF



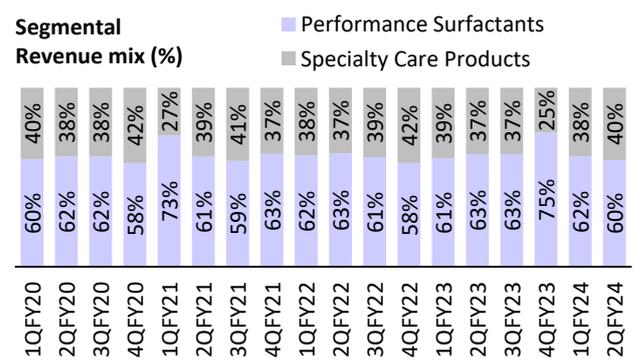
Source: Company, MOFSL

Exhibit 3: Margin has been stable over the past few quarters



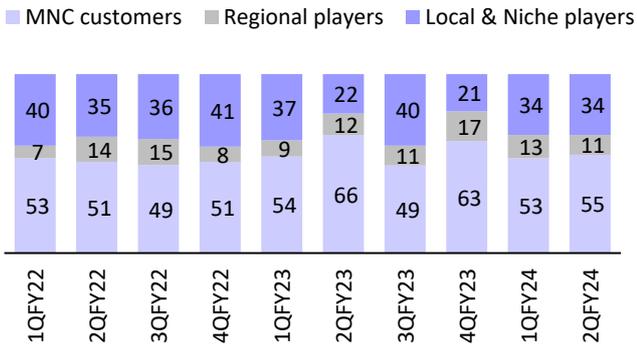
Source: Company, MOFSL

Exhibit 4: Performance revenue has been 60-62% of total



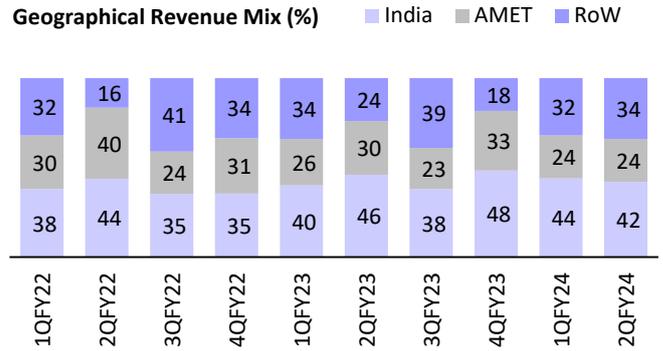
Source: Company, MOFSL

Exhibit 5: Revenue contribution across customer categories



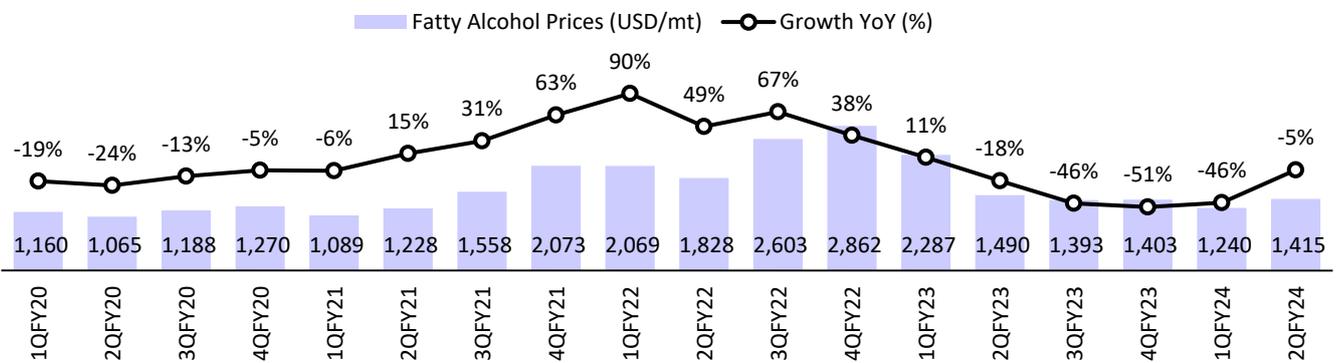
Source: Company, MOFSL

Exhibit 6: AMET and RoW expected to stabilize going forward



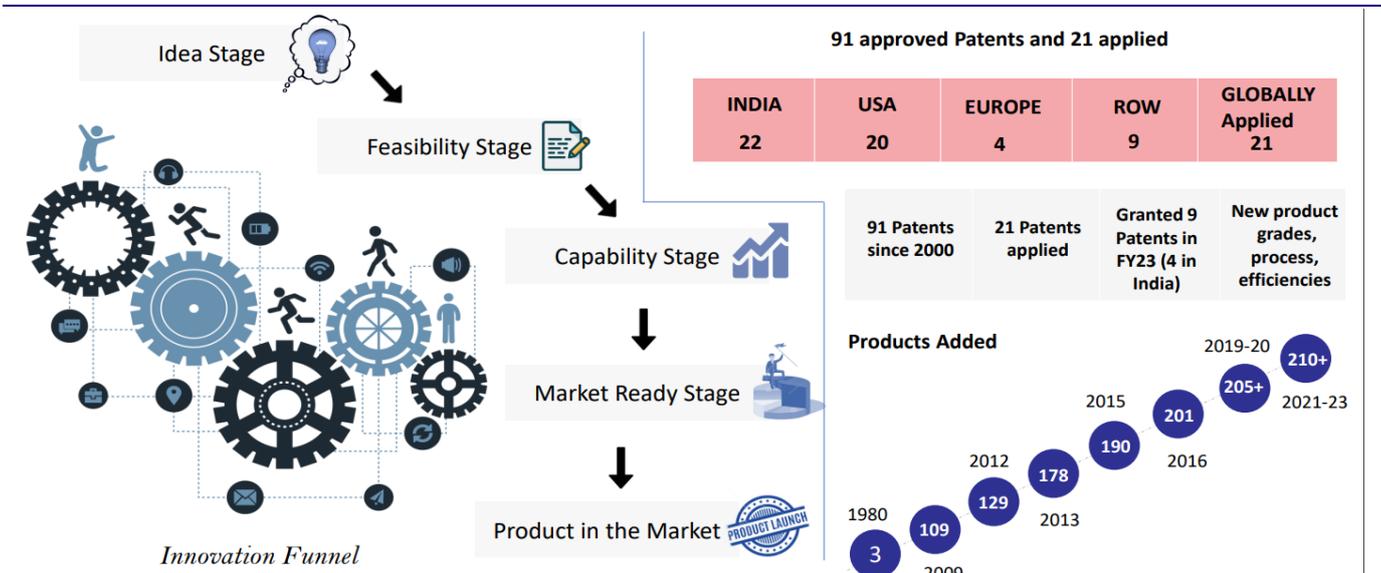
Source: Company, MOFSL

Exhibit 7: Fatty Alcohol prices have corrected after record highs during COVID



Source: Company, MOFSL

Exhibit 8: The innovation funnel of GALSURF



Source: Company, MOFSL

Exhibit 9: World class R&D facilities

Collaborative product development with Customers which helps Customers in choosing “**Right Technology with Right Application**”

Inhouse R&D Team of 100+ professionals comprising of doctorates, chemists and engineers

Well-Equipped R&D Centre, Pilot Plant at Tarapur, Maharashtra; Product applications centre for proteins at Denville, USA

Innovation Funnel (adopted in 2007) to consistently diversify product offerings, meet customer needs and consumer trends



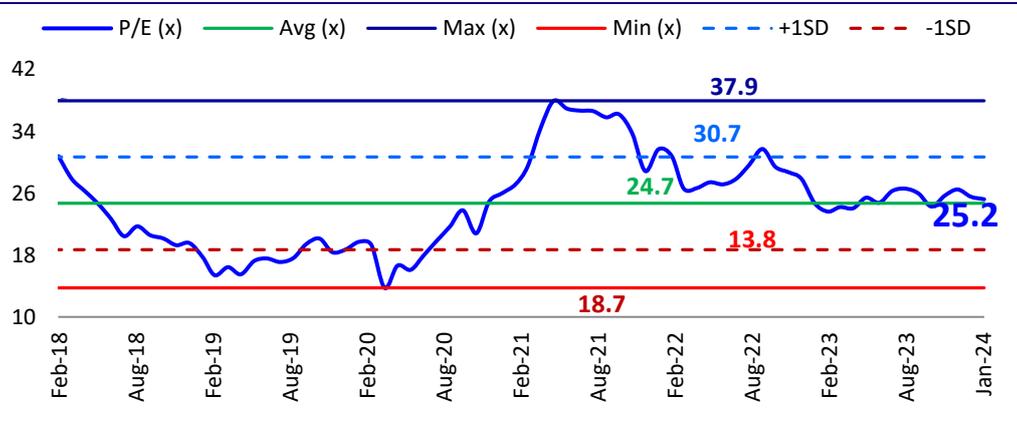
Source: Company, MOFSL

Exhibit 10: State-of-the-art manufacturing facilities

Location	No. of units	FY23	Details as on 31st Mar'23
Tarapur, Maharashtra	3	34,747	❖ 1 pilot plant for scale up and commercialisation of new products rolling out from R&D activities; easy access to the Jawaharlal Nehru Port Trust, Navi Mumbai
Taloja, Maharashtra	1	1,56,741	❖ One of the largest sulfation facilities in India; easy access to the Jawaharlal Nehru Port Trust, Navi Mumbai
Jhagadia, Gujarat	1	1,32,750	❖ Located close to raw material source ethylene oxide
Suez, Egypt	1	1,17,500	❖ Located in the Attaqa Public Free Zone, exempt from all direct and indirect taxes; access to the Suez Canal, can address AMET, Europe and Americas (North and South) markets
New Hampshire, USA	1	600	❖ Step-down Subsidiary - Tri-K Industries owns and operates for different grades of proteins for cosmetic applications
Total	7	4,42,338	

Source: Company, MOFSL

Exhibit 11: On a one-year forward P/E, GALSURF trades at 25.2x, a 2% premium to its long-term average



Source: Company, MOFSL

Story in charts

Exhibit 12: Expect ~6% revenue CAGR over FY23-26E...

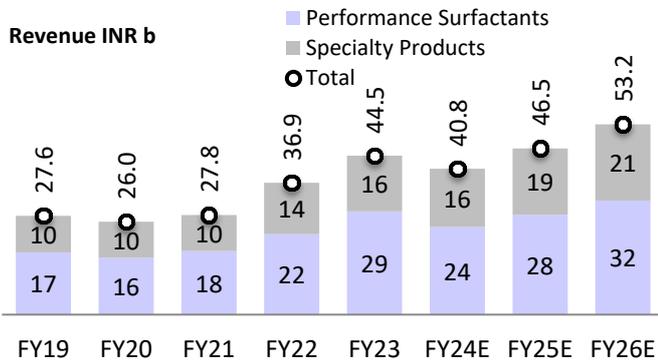


Exhibit 13: ...with specialty contribution improving in the mix

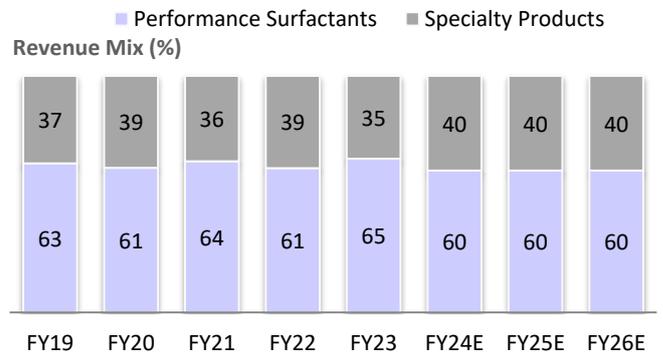


Exhibit 14: Expect capacity utilization to ramp up...

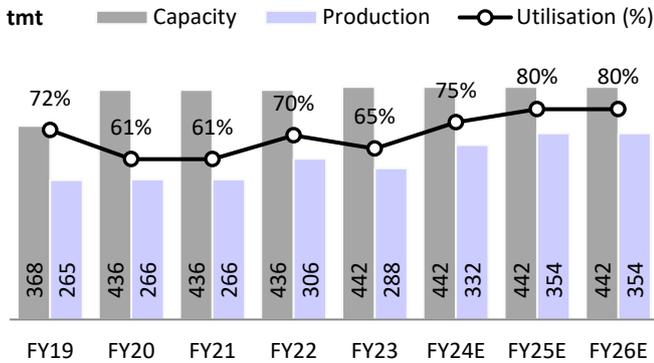


Exhibit 15: ...with higher volume growth from FY24 onwards

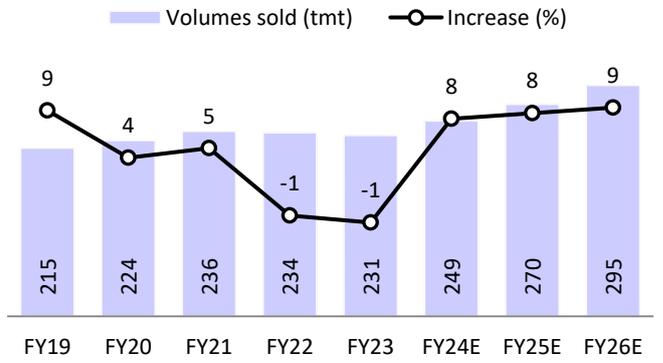


Exhibit 16: EBITDA/kg to improve gradually

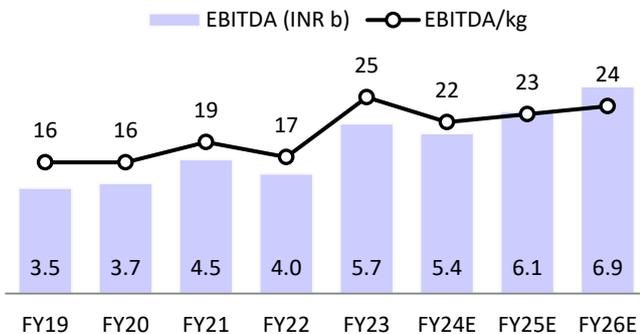


Exhibit 17: ...with PAT margin to remain stable

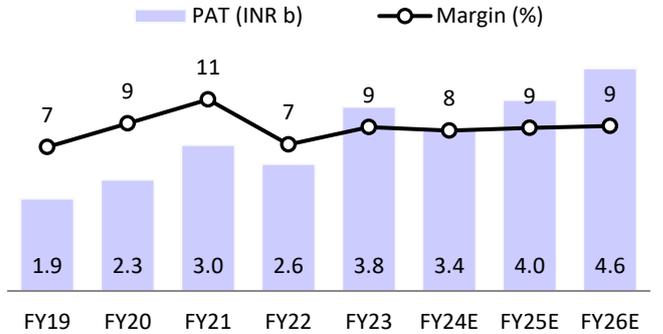


Exhibit 18: GALSURF is likely to generate FCF of INR9.2b...

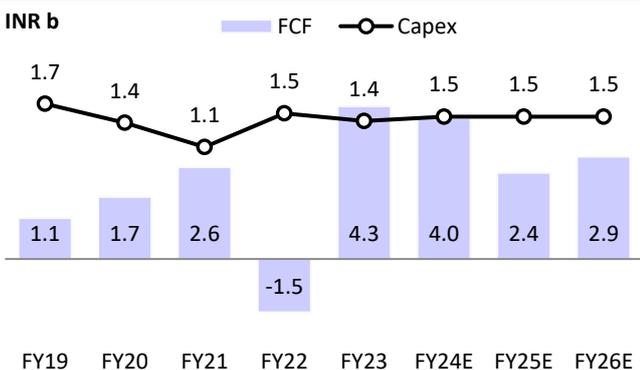
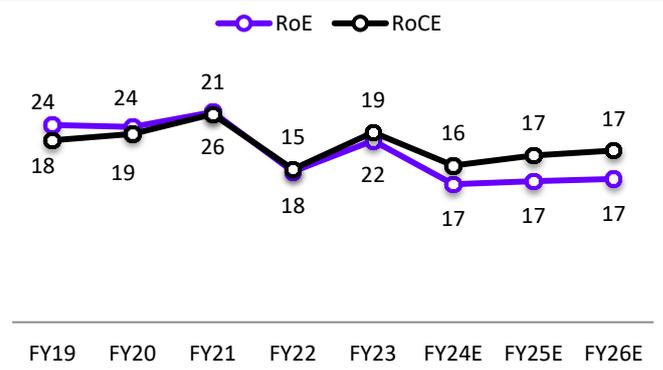


Exhibit 19: ...and become net cash company by FY24E



Source: Company, MOFSL

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	27,630	25,964	27,841	36,857	44,452	40,806	46,488	53,207
Change (%)	12.2	-6.0	7.2	32.4	20.6	-8.2	13.9	14.5
Gross Margin (%)	29.5	33.9	36.3	29.8	30.3	31.8	30.8	29.9
EBITDA	3,534	3,689	4,488	4,007	5,683	5,359	6,084	6,927
Margin (%)	12.8	14.2	16.1	10.9	12.8	13.1	13.1	13.0
Depreciation	512	622	740	711	835	1,003	1,020	1,048
EBIT	3,022	3,067	3,749	3,297	4,848	4,355	5,065	5,879
Int. and Finance Charges	300	238	134	129	217	234	238	245
Other Income	47	59	109	125	99	112	126	138
PBT bef. EO Exp.	2,769	2,888	3,723	3,293	4,730	4,233	4,952	5,772
PBT after EO Exp.	2,769	2,888	3,723	3,293	4,730	4,233	4,952	5,772
Total Tax	859	584	702	665	920	855	1,001	1,166
Tax Rate (%)	31.0	20.2	18.8	20.2	19.4	20.2	20.2	20.2
Reported PAT	1,910	2,304	3,021	2,628	3,810	3,378	3,952	4,606
Adjusted PAT	1,910	2,304	3,021	2,628	3,810	3,378	3,952	4,606
Change (%)	20.9	20.6	31.1	-13.0	45.0	-11.3	17.0	16.6
Margin (%)	6.9	8.9	10.9	7.1	8.6	8.3	8.5	8.7

Consolidated - Balance Sheet								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	355	355	355	355	355	355	355	355
Total Reserves	8,413	10,323	12,660	15,389	18,471	21,157	24,300	27,964
Net Worth	8,767	10,678	13,014	15,744	18,826	21,512	24,655	28,318
Total Loans	2,978	3,196	2,374	3,660	2,718	1,359	1,019	764
Deferred Tax Liabilities	320	241	233	249	283	283	283	283
Capital Employed	12,065	14,115	15,621	19,652	21,827	23,154	25,957	29,366
Gross Block	9,722	11,525	11,945	12,828	15,302	16,802	18,302	19,802
Less: Accum. Deprn.	4,609	5,231	5,971	6,681	7,516	8,519	9,539	10,587
Net Fixed Assets	5,112	6,294	5,974	6,146	7,786	8,282	8,763	9,215
Goodwill on Consolidation	25	28	27	28	30	30	30	30
Capital WIP	826	660	1,240	2,055	1,392	1,392	1,392	1,392
Total Investments	0	58	435	5	0	0	0	0
Curr. Assets, Loans&Adv.	9,717	11,081	12,821	17,772	18,137	18,499	21,528	25,320
Inventory	3,513	3,250	4,278	7,118	6,458	5,905	6,730	7,709
Account Receivables	4,268	4,394	4,689	6,380	6,148	5,644	6,429	7,359
Cash and Bank Balance	257	542	1,114	711	2,476	4,141	5,176	6,608
Cash	250	477	815	638	2,319	3,984	5,019	6,451
Bank balance	7	65	299	74	157	157	157	157
Loans and Advances	1,680	2,894	2,740	3,563	3,055	2,810	3,192	3,644
Curr. Liability & Prov.	3,615	4,005	4,874	6,353	5,518	5,049	5,755	6,591
Account Payables	3,059	2,731	3,770	5,189	4,302	3,933	4,483	5,135
Other Current Liabilities	416	1,098	918	1,011	1,082	993	1,131	1,295
Provisions	140	176	186	153	134	123	140	161
Net Current Assets	6,102	7,075	7,947	11,419	12,620	13,450	15,773	18,729
Appl. of Funds	12,065	14,115	15,621	19,652	21,827	23,154	25,957	29,366

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	53.9	65.0	85.2	74.1	107.5	95.3	111.5	129.9
EPS Growth (%)	20.9	20.6	31.1	-13.0	45.0	-11.3	17.0	16.6
Cash EPS	68.3	82.5	106.1	94.2	131.0	123.6	140.2	159.5
BV/Share	247.3	301.2	367.1	444.1	531.0	606.8	695.5	798.8
DPS	12.0	17.0	18.0	18.0	22.0	19.5	22.8	26.6
Payout (%)	26.9	31.5	21.1	24.3	20.5	20.5	20.5	20.5
Valuation (x)								
P/E	50.6	41.9	32.0	36.8	25.4	28.6	24.5	21.0
Cash P/E	39.9	33.0	25.7	28.9	20.8	22.1	19.4	17.1
P/BV	11.0	9.0	7.4	6.1	5.1	4.5	3.9	3.4
EV/Sales	3.6	3.8	3.5	2.7	2.2	2.3	2.0	1.7
EV/EBITDA	28.1	26.9	21.8	24.9	17.0	17.5	15.2	13.1
Dividend Yield (%)	0.4	0.6	0.7	0.7	0.8	0.7	0.8	1.0
FCF per share	32.4	49.2	72.7	-42.3	121.0	111.4	68.3	81.1
Return Ratios (%)								
RoE	23.9	23.7	25.5	18.3	22.0	16.7	17.1	17.4
RoCE	18.4	19.1	21.1	15.5	19.2	15.9	16.9	17.4
RoIC	19.5	20.5	23.7	17.7	22.4	19.5	21.8	23.0
Working Capital Ratios								
Fixed Asset Turnover (x)	5.8	4.6	4.5	6.1	6.4	5.1	5.5	5.9
Asset Turnover (x)	2.3	1.8	1.8	1.9	2.0	1.8	1.8	1.8
Inventory (Days)	46	46	56	70	53	53	53	53
Debtor (Days)	56	62	61	63	50	50	50	50
Creditor (Days)	40	38	49	51	35	35	35	35
Leverage Ratio (x)								
Current Ratio	2.7	2.8	2.6	2.8	3.3	3.7	3.7	3.8
Interest Cover Ratio	10.1	12.9	27.9	25.7	22.3	18.6	21.3	24.0
Net Debt/Equity	0.3	0.2	0.1	0.2	0.0	-0.1	-0.2	-0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	2,769	2,888	3,723	3,293	4,730	4,233	4,952	5,772
Depreciation	512	622	740	711	835	1,003	1,020	1,048
Others	288	220	79	90	214	234	238	245
Direct Taxes Paid	-750	-686	-706	-594	-953	-855	-1,001	-1,166
(Inc)/Dec in WC	11	113	-186	-3,450	903	835	-1,288	-1,524
CF from Operations	2,830	3,157	3,651	49	5,729	5,450	3,921	4,375
Capex	-1,680	-1,414	-1,073	-1,547	-1,439	-1,500	-1,500	-1,500
Free Cash Flow	1,150	1,744	2,578	-1,498	4,291	3,950	2,421	2,875
CF from Investments	-1,673	-1,511	-1,647	-841	-1,486	-1,500	-1,500	-1,500
Inc/(Dec) in Debt	-623	562	-951	941	-1,039	-1,359	-340	-255
Interest Paid	-272	-226	-152	-131	-241	-234	-238	-245
Dividend Paid	-298	-940	-495	-142	-1,275	-691	-809	-943
CF from Fin. Activity	-1,192	-1,434	-1,650	592	-2,643	-2,285	-1,387	-1,443
Inc/Dec of Cash	-36	212	354	-201	1,601	1,665	1,035	1,432
Opening Balance	271	250	477	815	637	2,318	3,983	5,018
Closing Balance	251	477	815	637	2,318	3,983	5,018	6,450

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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